

Message Text

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E.O. 11652: N/A
TAGS: ETRD, CA
SUBJECT: CANADIAN SENATE ADVOCATES FREE TRADE WITH U.S.

1. SUMMARY. CANADIAN SENATE COMMITTEE HAS ISSUED
REPORT CALLING FOR "FREE TRADE ARRANGEMENT" WITH THE
U.S. REPORT NOTES LONG STANDING CANADIAN POLICY
OF PROTECTIONISM HAS LEFT CANADIAN INDUSTRY, ESPECIALLY
MANUFACTURING, UNCOMPETITIVE AND PRICED OUT OF FOREIGN
MARKETS. DESPITE RISKS, COMMITTEE SEES FREE TRADE
WITH U.S. AS MEANS OF ENCOURAGING RATIONALIZATION AND
SPECIALIZATION OF CANADIAN INDUSTRY, THUS MAKING
CANADA MORE COMPETITIVE, ECONOMICALLY STRONGER, AND
BETTER ABLE TO MAINTAIN ITS POLITICAL AND CULTURAL
INDEPENDENCE. REPORT IS LATEST SALVO IN ONGOING
CANADIAN DEBATE ON INDUSTRIAL POLICY. END SUMMARY.
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2. CANADIAN SENATE STANDING COMMITTEE ON FOREIGN
AFFAIRS HAS ISSUED STUDY ON CANADA'S TRADE RELATIONS
WITH THE U.S. AS VOLUME II OF LARGER STUDY ON CANADA-
U.S. RELATIONS. COMMITTEE, CHAIRED BY SENATOR VANROGGEN,
COMES OUT STRONGLY IN REPORT FOR "FREE TRADE ARRANGEMENT"
WITH THE U.S.

3. REPORT SAYS PROBLEMS IN CANADA'S TRADE RELATIONS WITH THE U.S. DO NOT RPT NOT STEM FROM TRADE DISPUTES NOR FROM CANADA'S RESOURCE SECTOR, WHICH IS THE BACKBONE OF CANADA'S TRADE WITH THE U.S. PROBLEM LIES OVERWHELMINGLY IN CANADIAN MANUFACTURING WHICH IS STRUCTURALLY WEAK, OVERPROTECTED, VULNERABLE TO INCREASING COMPETITION FROM ADVANCED DEVELOPING COUNTRIES, AND WHICH, IN PARTICULAR, HAS PRICED ITSELF OUT OF THE U.S. MARKET. CANADIAN PRODUCTS ARE UNCOMPETITIVE, REPORT ASSERTS, AT A TIME WHEN "ONE OUT OF EVERY TWO JOBS IN GOODS PRODUCING INDUSTRIES IN CANADA IS DEPENDENT ON EXPORTS TO THE U.S. IN ONE WAY OR ANOTHER".

4. REPORT SAYS GREATER EFFORTS BY GOC SUCH AS ENCOURAGING RATIONALIZATION, TAX INCENTIVES FOR RESEARCH AND DEVELOPMENT, DUTY REMISSION PROGRAMS TO ENCOURAGE SPECIALIZATION, AND GOVERNMENT PROCUREMENT PROGRAMS MAY ALL HELP, BUT THEY WILL NOT PROVIDE THE NECESSARY CURE. ONLY ONE WAY TO ACHIEVE NEEDED STRUCTURAL REFORMS AND STIMULATE EXPORTS IS TO ENTER INTO A FREE TRADE ARRANGEMENT WITH THE U.S.

5. REPORT NOTES U.S. TRADE ACT OF 1974 SPECIFICALLY AUTHORIZES THE PRESIDENT TO ENTER INTO A RECIPROCAL FREE TRADE AGREEMENT WITH CANADA.
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6. REPORT ACKNOWLEDGES THAT NEW TRADE ARRANGEMENT MIGHT LEAD CANADIAN FIRMS AND U.S.-CONTROLLED FIRMS IN CANADA TO INVEST IN THE U.S. RATHER THAN CANADA. HOWEVER, IN PRESENT INDUSTRIAL CLIMATE, BOTH CANADIAN AND U.S. FIRMS HAVE BEEN DOING JUST THAT, WITH SERIOUS OUTFLOW OF INVESTMENT AND PRODUCTION FROM CANADA TO THE U.S. SINCE 1975.

7. REPORT NOTES THAT RECENT DEPRECIATION OF CANADIAN DOLLAR HAS HELPED CANADIAN COMPETITIVENESS, AND THAT IN A "FREE TRADE SITUATION" A LOWER CANADIAN DOLLAR WOULD PROVIDE GREATER SUPPORT THAN TARIFFS (SIC).

8. COMMENT. REPORT IS EXCEEDINGLY VAGUE ON HOW SUCH A "FREE TRADE ARRANGEMENT" WOULD BE ACHIEVED, TIME FRAME INVOLVED, AND HOW INEVITABLE ADJUSTMENT COSTS WOULD BE MET.

9. REPORT IS LATEST SALVO IN CONTINUING DOMESTIC CANADIAN DEBATE ON INDUSTRIAL AND TRADE STRATEGY. IT WILL NO DOUBT BE MET BY REBUTTALS FROM ADVOCATES OF

CONTINUING PROTECTIONISM AND THOSE AT CENTER OF OPINION
SPECTRUM ADVOCATING CAUTIOUS APPROACH TO FREER TRADE.
FREE TRADE WITH U.S. IS NOT NOW AT THE CENTER OF THE
CANADIAN POLITICAL DEBATE OVER INDUSTRIAL STRATEGY,
AND WE DO NOT EXPECT IT TO BECOME SO IN THE FORESEEABLE
FUTURE.

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